

Box 2.1: Trends in the Professional Services Sector

The business services sector covers a diverse range of activities. This box article focuses on five segments within the sector, namely i) legal services, ii) accounting services, iii) business representative offices, iv) business and management consultancy, and v) architectural and engineering services. These five segments are collectively known as the professional services sector.

Growth Trends And Drivers

Since 2000, the nominal value-added (VA) of the professional services sectors has grown by 8.8 per cent on a compound annual growth rate (CAGR) basis, outpacing nominal GDP growth of 6.1 per cent (Exhibit 1). As a result, the professional services sector's share of nominal GDP rose from 3.9 per cent in 2000 to 4.7 per cent in 2008. This level places the professional services sector roughly on par with major manufacturing clusters such as electronics (5.1 per cent) and biomedical manufacturing (4.3 per cent) in terms of contribution to the economy.

Exhibit 1: Composition of the Professional Services Sector

Sector	CAGR, % (2000- 2008)	Nominal VA Share of GDP (%)	
		2000	2008
Legal Services	7.1	0.5	0.6
Accounting Services: accounting, auditing, book-keeping services.	6.6	0.4	0.4
Business Representative Offices: business rep. offices, regional/head offices of enterprises operating abroad.	11.8	0.9	1.3
Business & Management Consultancy: human resource, public relations, etc.	8.2	1.0	1.1
Architectural & Engineering Services: landscape design, architectural services, process plant services, etc.	8.4	1.1	1.3

Source: Singapore Department of Statistics

Two key factors have driven the growth of the professional services sector. The first is the strong growth in the other sectors of the economy that use professional services, and the second is the growth in demand for professional services overseas.

First, the professional services sector is heavily dependent on intermediate demand from other sectors of the economy. Singapore's 2000 Input-Output Tables show that 67 per cent of the sector's output is purchased as intermediate inputs by various sectors of the economy. Common major purchasing sectors include the wholesale and retail trade, manufacturing, other business services¹, and financial services sectors (Exhibit 2). These sectors grew 6.4 per cent on a CAGR basis from 2000 to 2008, which in turn led to an increase in demand for professional services. The architectural and engineering services segment has also benefited from demand from the construction sector, which saw double-digit growth rates in 2007 and 2008.

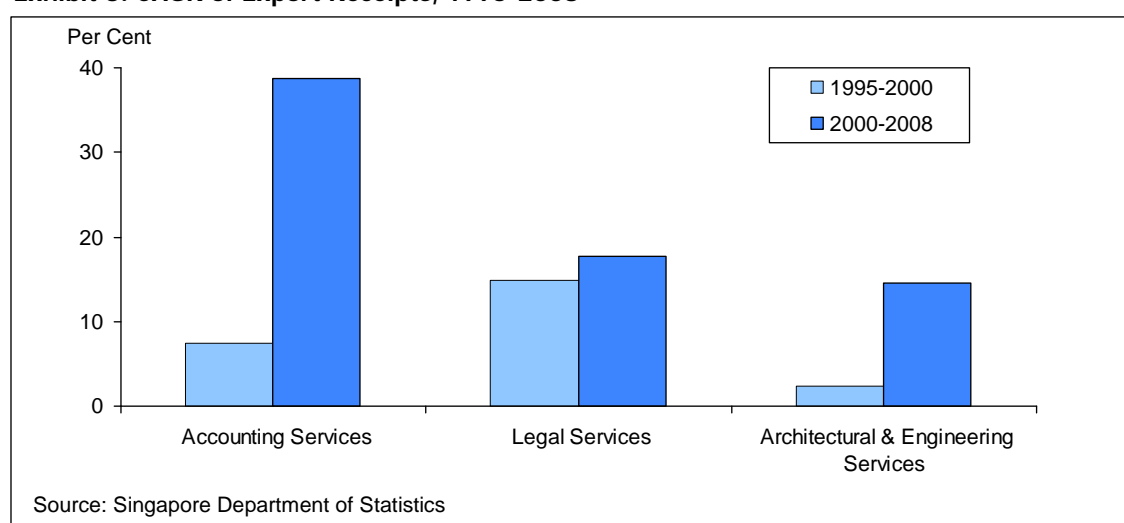
¹ Business services excluding the professional services segments. Other business services include activities like real estate activities, industrial design services, research and development, etc.

Exhibit 2: Major Purchasing Sectors of Professional Services Output

Segment	Major Purchasing Sectors	% Share of Output
Legal Services	Wholesale & retail trade	12.4
	Manufacturing	11.1
	Other business services	9.2
	Other services	8.2
	Financial services	7.9
Accounting Services	Wholesale & retail trade	20.7
	Other business services	16.1
	Manufacturing	13.1
	Financial services	12.5
	Other services	7.1
Business and Management Consultancy	Other services	9.1
	Other business services	8.9
	Wholesale and retail trade	8.6
	Manufacturing	6.0
Architectural and Engineering Services	Construction	26.1
	Manufacturing	10.2
	Other business services	10.1

Source: 2000 Input-Output Tables, Singapore Department of Statistics

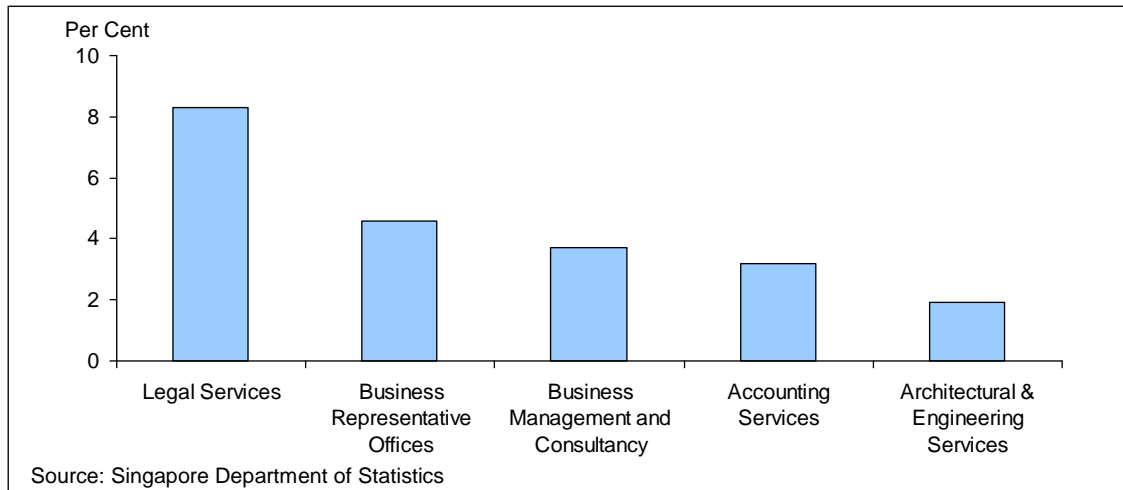
Second, exports of professional services have increased in recent years. The sector has traditionally catered to domestic demand. In 2000, 73 per cent of the output of architectural and engineering services, and over 85 per cent of the output of legal and accountancy services were consumed domestically². These shares were slightly higher than the average of 70 per cent for the services sector as a whole. In contrast, the business and management consultancy segment was more outward looking, with only 53 per cent of its output consumed domestically. Since 2000, foreign demand has played an increasingly important role in driving the growth of the professional services sector. Export receipts for accountancy, legal, and architectural and engineering services exhibited strong double-digit growth on a CAGR basis from 2000 to 2008, accelerating from the pace registered in preceding years ([Exhibit 3](#)).

Exhibit 3: CAGR of Export Receipts, 1995-2008

² Based on 2000 Input-Output tables.

In line with the value-added growth of the professional services sector, employment and wages in the sector have also risen. Employment grew by 4.9 per cent on a CAGR basis for the sector as a whole from 2000 to 2007, with all segments of the sector enjoying employment growth. Similarly, the average nominal wage per employee in the various segments grew by a CAGR of 2-5 per cent from 2000 to 2007, except for nominal wages in legal services which grew by a stronger 8.3 per cent ([Exhibit 4](#)).

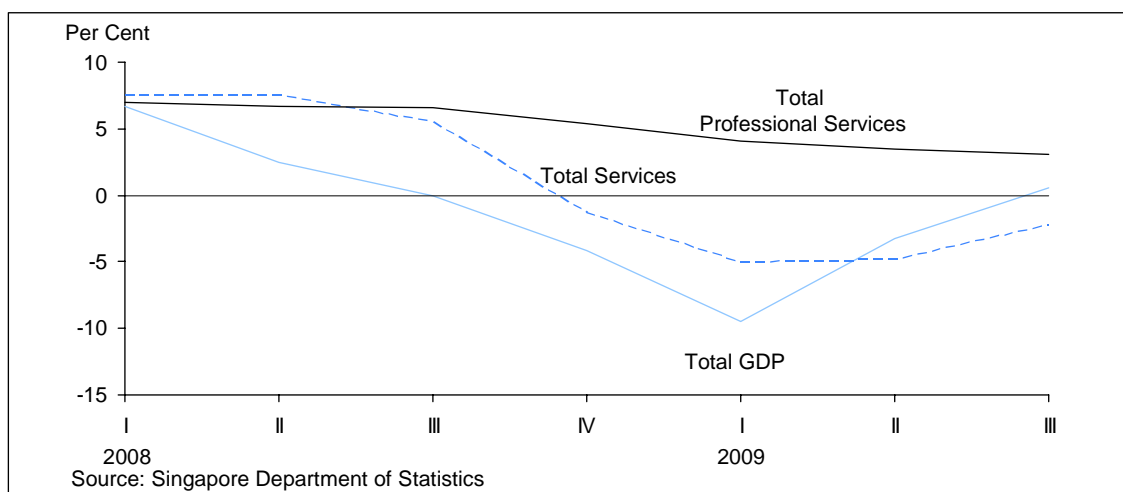
Exhibit 4: CAGR of the Average Nominal Wage Per Employee, 2000-2007



Short And Medium Term Outlook

The professional services sector has been resilient throughout the current downturn. Although both the overall economy and the services sector contracted by 4.1 per cent in the first three quarters of 2009, the overall professional services sector has continued to expand by 3.6 per cent ([Exhibit 5](#)). All segments of professional services have continued to grow throughout the recession, albeit at a lower level compared to the period before the downturn. For example, the architectural and engineering services segment has benefitted from the strong pipeline of ongoing construction projects initiated in recent years. Recent liberalisation efforts in the legal services segment have helped to attract top global law firms to Singapore, and given a boost to the legal services segment. As for accounting firms, while their auditing business has slowed, services related to restructuring, forensic reporting, and mergers and acquisitions have remained in demand.³

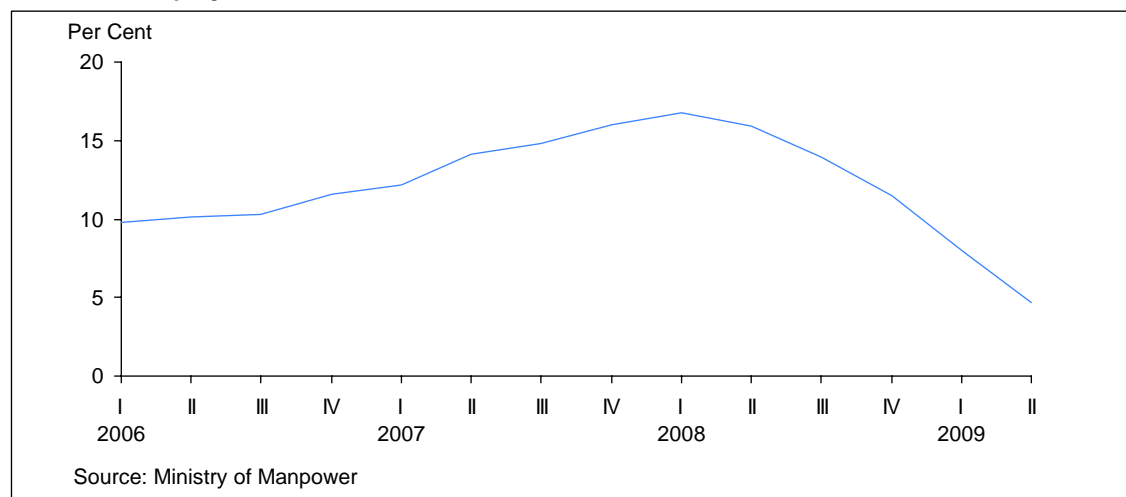
Exhibit 5: Real GDP Growth



³ "An Auditing Slowdown". TODAY, 28 October 2008.

As a result, the professional services sector has provided some support to the labour market. Employment in the sector continued to grow at a healthy rate of 4.7 per cent in the second quarter of 2009, higher than the overall employment growth of 2.2 per cent ([Exhibit 6](#)). For example, concerns over a shortage of litigation lawyers were present in early-2009⁴ despite the negative economic climate.

Exhibit 6: Employment Growth in Professional Services Sector



In the medium term, the outlook for the professional services sector remains bright. As the Singapore economy continues to grow, the domestic demand for professional services will rise in tandem. The growth of economies in Asia will also spur greater overseas demand for professional services. The challenge for the sector is thus to ensure an adequate supply of qualified manpower to meet the expected increase in demand. For example, a survey by the Association of Chartered Certified Accountants (ACCA) found that 79 per cent of Singapore respondents expect demand for qualified accountants to rise between now and 2014.⁵ Steps are already being taken to grow the manpower pool for the sector. For instance, the Singapore Accountancy Academy aims to grow its student population to 10,000 in the next three to four years from the current 6,000.⁶ Ongoing liberalisation efforts for the legal services segment will help to attract experienced lawyers to Singapore, while the Singapore University of Technology and Design will offer courses in architecture and engineering when it opens its doors in 2011.

Conclusion

The professional services sector encompasses a diverse range of activities that primarily supports other sectors of the economy like wholesale and retail trade, financial services, business services, manufacturing and construction. The sector has grown strongly in recent years, driven by demand from these sectors as well as external demand. While growth has slowed due to the downturn, the medium term outlook for the sector remains bright. As the Singapore economy grows, the sector will benefit from the increase in demand domestically. Stronger linkages with overseas markets will also contribute positively to the sector's growth in future.

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⁴ Parliament Report, Committee of Supply Debate. 12 and 13 February 2009.

⁵ "Teamwork vital' for accountants". Straits Times, 4 June 2009.

⁶ "Training Help for Two Singapore Sectors". TODAY, 11 June 2009.